

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-07 NEA-10 ISO-00

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FEAE-00 FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05

OMB-01 PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 PA-01 PRS-01 /122 W
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R 210955Z OCT 75

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 3995

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGILRS

AMEMBASSY BAGHDAD

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TRIPOLI

C O N F I D E N T I A L TEHRAN 10308

E.O. 11652: GDS

TAGS: ENRG, OPEC, IR

SUBJ: IMPLEMENTATION OF OPEC PRICE INCREASE:

NIOC RELATIONS WITH CONSORTIUM

1. SUMMARY: CONSORTIUM REP VARIAN HAS BEEN TOLD INFORMALLY
THAT NEW PRICES FOR IRANIAN LIGHT AND HEAVY CRUDES PROBABLY
WILL BE ABOUT \$11.62 AND 11.495 RESPECTIVELY. AMOUZEGAR ALSO
TOLD VARIAN SHAH HAS GIVEN GO-AHEAD TO NEGOTIATE NEW
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ARRANGEMENTS WITH CONSORTIUM MEMBERS WITHOUT AWAITING RESULTS

OF SAG NEGOTIATIONS WITH AMERICAN PARTNERS IN ARAMCO. VARIAN TOLD EMBOFF THAT IRANIAN CRUDES, ESPECIALLY HEJLY, WILL STILL BE OVERPRICED. MEMBERS' LIFTINGS OF HEAVY CRUDE HAVE FALLEN DRASTICALLY THIS MONTH. TOTAL LIFTINGS IN OCTOBER MAY FALL A MILLION BARRELS PER DAY BELOW SEPTEMBER LEVELS. END SUMMARY

2. CONSORTIUM MEMBERS HAVE YET TO RECEIVE OFFICIAL NOTICE OF NEW PRICES, THOUGH BOTH OPEC REP AMOUZEGAR AND NIOC OFFICIALS HAVE MENTIONED FIGURES 11.62 AND 11.495 TO CONSORTIUM REP VARIAN AS PROBABLE NEW MARKET PRICES FOR IRANIAN LIGHT AND HEAVY, RESPECTIVELY. VARIAN UNDERSTOOD FROM CONVERSATION LATE LAST WEEK WITH AMOUZEGAR THAT CALCULATION IN CASE OF IRANIAN LIGHT IS AS FOLLOWS:\$11.51(MARKET PRICE OF ARABIAN LIGHT) PLUS 20.8 CENTS "OLD PREMIUM ON MARKET PRICE"(WHICH IS 93 PERCENT OF OLD 22.4 CENT PREMIUM ON POSTED PRICE) MINUS"ABOUT 10 CENT REDUCTION IN PREMIUM" GIVES ABOUT \$11.62. VARIAN UNDERSTOOD AMOUZEGAR TO SAY THAT COMPANIES' 22-CENT MARGIN WOULD BE SUBTRACTED FROM THIS TO GIVE COST TO COMPANIES OF "ABOUT \$11.40." IF THE CALCULATION IS INDEED MADE IN THIS WAY, NIOC WOULD ABSORB ALL OF PRODUCTION COST.

3. PRIOR TO OCTOBER 1, COMPANIES WERE PAYING PRICE(FOR IRANIAN LIGHT) CONSISTING OF \$10.12(AVERAGE GOVERNMENT TAKE ON MARKER CRUDE) PLUS 20.8 CENTS(PREMIUM ON MARKET PRICE) PLUS 12 CENTS(THEORETICAL PRODUCTION COST) PLUS 0.25 CENTS (REPRESENTING SIX PERCENT OF 4.2-CENT INCREASE IN ESTIMATED PRODUCTION COST FROM 12 CENTS TO 16.2 CENTS) FOR TOTAL OF \$10.4505. NIOC WAS BILLING COMPANIES SLIGHTLY MORE THAN THIS, TO INCLUDE SIX PERCENT OF A FURTHER INCREASE IN ESTIMATED OPERATING COSTS BEYOND 16.2 CENTS. COMPANIES WERE REFUSING TO PAY THIS, BECAUSE AMOUZEGAR HAD TOLD THEM EARLIER THIS YEAR THAT IRAN WOULD ABSORB ALL INCREASES IN OPERATING COSTS BEYOND 16.2 CENTS. THIS RATHER MINOR CONFLICT COULD DISAPPEAR IF COST TO COMPANIES IS CALCULATED AS IN PARA 2 ABOVE. FYI: CURRENT ESTIMATE FOR OPERATING COSTS IS SLIGHTLY OVER 19 CENTS PER BARREL.

4. AMOUZEGAR ALSO TOLD VARIAN HE HAS SPOKEN WITH SHAH ABOUT POSSIBILITY OF BEGINNING NEGOTIATIONS WITH CONSORTIUM MEMBERS ON "NEW RELATIONSHIP," BETWEEN NIOC AND COMPANIES, RATHER THAN AWAITING OUTCOME OF SAG/ARAMCO NEGOTIATIONS. SHAH, AMOUZEGAR CONFIDENTIAL

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SAID, TOLD HIM TO GO AHEAD AND NEGOTIATE.("AFTER ALL," SAID AMOUZEGAR, "WE ALREADY HAVE EXAMPLE OF VENEZUELA.") CONSORTIUM TEAM WHICH WILL BE HERE OCTOBER 24 ON DIFFERENT MATTER MAY DISCUSS WITH AMOUZEGAR A DATE FOR NEGOTIATION ON "NEW RELATIONSHIP."

5. VARIAN TOLD EMBOFF THAT IRANIAN CRUDES CONTINUE OVERPRICED. HEAVY CRUDE, ESPECIALLY, IS FAR OUT OF LINE. LIFTINGS OF HEAVY,

HE SAID, HAVE FALLEN SHARPLY THIS MONTH. TOTAL LIFTINGS IN
OCTOBER MAY FALL BELOW SEPTEMBER LEVELS BY AS MUCH AS ONE MILLION
BARRELS PER DAY. NEVERTHELESS, AMOUZEGAR IS STICKING TO LINE
HE HAS TAKEN IN PAST: PRICE OF IRANIAN HEAVY WILL NOT FALL
UNLESS THAT OF KUWAITI CRUDE DOES.
MIKLOS

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